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SUBJECT: U.S. SANCTIONS NOT MAJOR OBSTACLE TO CROATIAN GAS EXPLORATION IN SYRIA, INA INTERESTED IN IRAQ

Summary

¶11. (SBU) On June 1 we visited INA, the majority state-owned oil and gas company, to inquire about its overseas activities in general, and its exploration activities in Syria in particular. Zeljko Belosic, Member of the Board and executive director for Oil and Gas Exploration and Production noted the importance of the Syrian gas concession to INA and a certain degree of difficulty associated with U.S. sanctions. Belosic also listed other deals afoot and noted that INA hoped to get back into Iraq, perhaps in cooperation with a Jordanian or U.S. company. End Summary.

Syria is INA's Biggest Find in 15-20 Years

¶12. (SBU) Belosic described INA (and its exploration subsidiary, CROSCO) projects throughout the world, including in Egypt, Namibia, Syria, Algeria, Tunisia, and preliminary efforts to get back into the Russian market. The discussion quickly turned to INA's gas concession in Syria. Belosic noted the importance of this concession to INA -- the company had sunk over \$140 million into the project and had no choice but to continue. It was their biggest find in the last 15-20 years. The project started in 1998, had three drilling rigs in operation, and INA would start another 5-7 rigs next year. That day INA was bidding on another concession block.

¶13. (SBU) Almost all INA's equipment and technology was American -- it was the technology of choice, it was what was taught in Croatian universities; INA knew and trusted U.S. suppliers. Most of the large equipment needed in Syria was in place or not yet procured. Thus the sanctions were causing significant but not insurmountable problems. For example, six months ago INA had signed a contract for chemicals with Halliburton. The chemicals were on a truck en route from Dubai to Syria when the sanctions went into effect. Halliburton turned the truck around and had it return to Dubai. In such a case, Belosic said INA does not get its money back, but can only accept delivery in some other country. While the monetary value of the chemicals whose contracts could not be fulfilled was not that significant -- some tens of thousands of dollars -- there were warehouses full of chemicals worth several millions of dollars that needed to be used with the new chemicals. While replacement chemicals could and had to be located and procured, their reaction with already purchased stocks was unknown, and could even cause accidents if proper care was not taken.

¶14. (SBU) In another case, INA had been told by the U.S. company that sold them some equipment that they could not provide service for that equipment. Additionally, all the exploration rigs were American. In the middle of the night, if a \$100,000 part broke down, INA would normally call up the American supplier, and a replacement part would be put on a plane the same day. With sanctions, INA would have to look for a replacement, perhaps from a licensee or U.S. joint-venture partner, from Europe or the Far East. Each day that a rig sat idle cost INA \$20,000. Nevertheless, INA had operated in Libya for ten years under sanctions. It was able to operate by locating alternative suppliers, often paying three times the normal price.

¶15. (SBU) Belosic felt confident that INA would overcome any problems presented by sanctions. In fact, he noted that if INA's U.S. "neighbors" in Syria, Occidental, Marathon and Devon, had difficulties taking advantage of their concessions or fulfilling their contracts, INA would be happy to make an offer for their rights. Belosic also provided embassy officers maps of INAs concession blocks in Syria and Egypt, which we can supply upon request.

Iraq

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¶16. (SBU) Belosic said that, contrary to some news reports, INA was not yet back in Iraq. It wanted to return -- it had been the last foreign company to leave Iraq just before the Iran-Iraq war, he said -- but the security situation was too difficult. INA had had discussions with some Jordanian oil

officials recently, and a joint venture in Iraq was a possibility. (Note: King Abdullah of Jordan made an official

visit to Croatia last week. End note.) INA had also expressed interest in cooperating in Iraq to Halliburton European representatives, asking them to pass the message back to the relevant parties. INA had also been prepared to attend an "oil" meeting that had been scheduled in Basra, but which was then delayed.

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